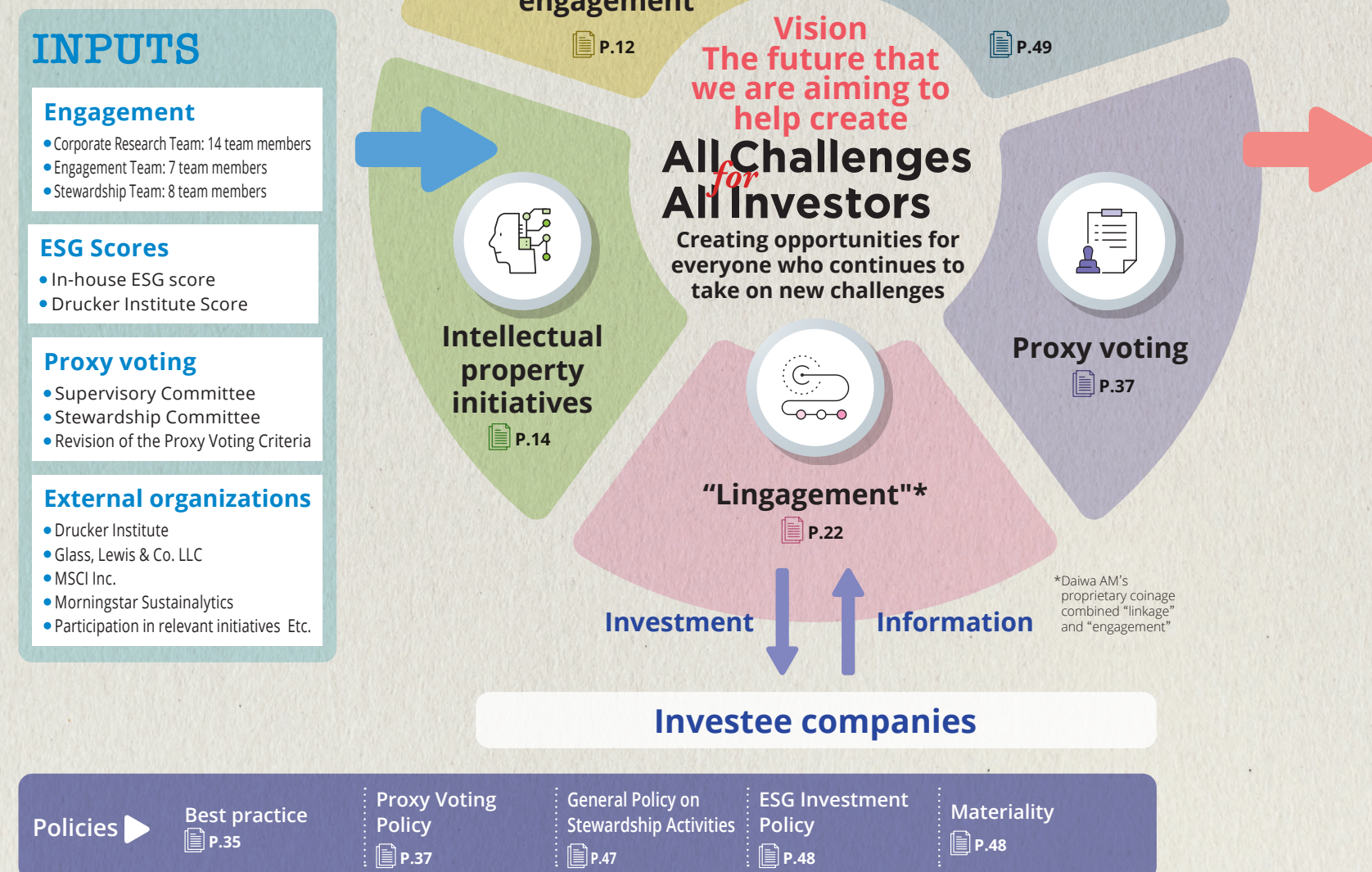


Part 1 Stewardship Activities

Introduction

The Value Creation Process in Relation to Stewardship Activities

Daiwa AM is building on its strengths in terms of three-in-one engagement, intellectual property initiatives, “lingagement” (combining linkage with engagement), proxy voting, and ESG integration, to promote measures that will enhance the corporate value of investee companies.



OUTCOMES

Enhanced fund performance

Sustainable growth for society

Addressing society's problems

Enhancing corporate value and creating social value

OUTPUTS

Engagement P.11-

No. of engagement cases:

Stewardship Team
14.4%/198 cases

1,377

Engagement Team
4.4%/61 cases

Corporate Research Team
81.2%/1,118 cases

Engagement cases by category (%)

Environmental, social and governance (ESG)
27.9%

ROE and capital cost
18.3%

Approach to dialog with investors and disclosure of information
25.7%

Capital policy (cash utilization, shareholder returns, etc.)
28.1%

Note: Some cases are included in more than one category, as the dialog in a given meeting may embrace multiple perspectives.

Proxy Voting P.37-

No. of instances of exercising proxy voting rights: 2,500

Ratio of voting in favor versus voting against

Proposals relating to company proposals (Total: 23,601 proposals)

In favor: 21,490

Against: 2,111

Proposals relating to proposals by shareholders (Total: 432 proposals)

Against: 343

In favor: 89

No. of Stewardship Committee meetings held: 40

No. of Stewardship Committee proposals: 101

No. of Stewardship Supervisory Committee meetings held: 2

No. of revisions made to the Proxy Voting Policy: 2

PRI annual assessment P.66



Signatory of:
PRI Principles for Responsible Investment

Items	Assessment
Policy Governance and Strategy	★★★★★
Direct - Listed equity - Active	★★★★★
Direct - Listed equity - Passive	★★★★★
SSA/Corporate	★★★★★
Securitized	★★★★★
Indirect - Listed equity - Active	★★★★★

Stock Market Investment Environment and Stewardship Activities



Yoshinori Nagano

Managing Director, Research Department

The transformation in corporate attitudes and developing Japan as a Leading Asset Management Center

Japan's stock markets posted an impressive upswing in 2023. There are two significant structural changes that contributed to this growth. The first of these changes is the transition from deflation to inflation. In a deflationary environment where prices are expected to fall, which makes it advantageous to delay consumption and investment until the future, economic activity tends to be characterized by diminishing equilibrium. However, this tendency toward stagnation is now changing due to the shift toward inflation. The second structural change is a move toward business management that is more aware of the cost of capital. There is a growing recognition that, when a firm's price-to-book ratio (PBR) falls below 1.0,

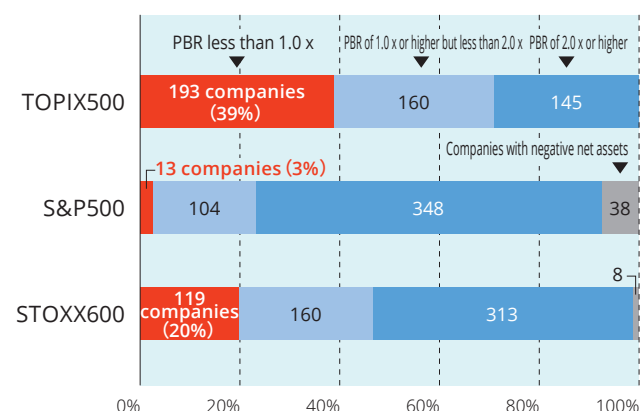
that firm is failing to generate revenue sufficient to meet investors' expectations (i.e. cost of capital).

Given these circumstances, the decision by the cabinet of Japanese Prime Minister Fumio Kishida to announce plans for developing Japan into a Leading Asset Management Center can be seen to be very timely. By combining a transformation of the asset management sector with the effective utilization of personal financial assets that have been lying idle as deposits, so that companies are provided with funds where a certain degree of risk is acceptable, if companies then use these funds efficiently and proactively (i.e., if they invest in expanding the scope of business operation while remaining aware of the cost of capital), then it should be possible to realize a virtuous circle that leads to enhanced corporate value, and which puts the Japanese economy back on a growth path.

The significance of engagement activities, and Daiwa AM's approach

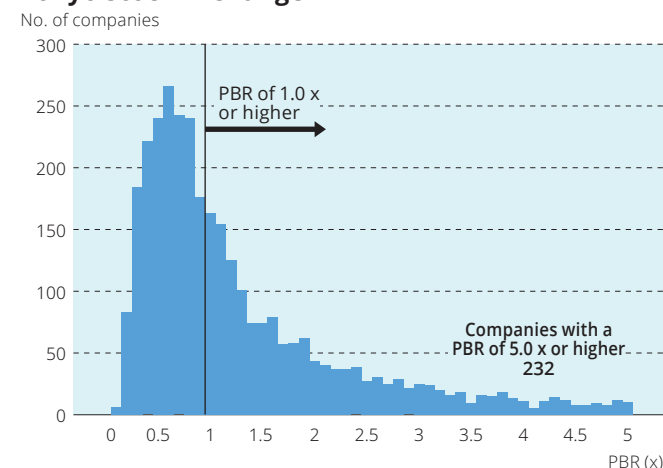
Corporate value can be defined as the sustained generation of revenue that exceeds the cost of capital. One of the activities that asset management companies need to undertake to realize an increase in corporate value is engagement (i.e., constructive dialog with companies). If an investee company and the asset management company have a shared understanding of the issues relating to corporate value enhancement, and undertake joint discussion of strategies for addressing these issues, then if the investee company implements management based on these discussions, it should be able to realize an increase in corporate value. Activities of this type have become increasingly prominent in recent years, and Daiwa AM has adopted a proactive approach to this type of engagement.

PBR analysis of companies included in the TOPIX 500, S&P 500 and STOXX 600 indices



Source: Compiled using Bloomberg data, and referencing data from Ministry of Economy, Trade and Industry (METI)

PBR distribution among companies listed on the Tokyo Stock Exchange



Source: Compiled using QUICK data, and referencing data from METI

There have also been a growing number of cases in which, besides undertaking engagement as an investor, asset management companies also make use of proposals put forward at companies' shareholders meetings. If, after careful study, Daiwa AM believes that a proposal will contribute toward raising corporate value over the medium to long term, then it will support that proposal.

The importance of intangible assets for enhancing sustainability, and Daiwa AM's initiatives in this area

Medium- to long-term corporate value is, in other words, sustainability. The word sustainability is often heard in relation to environmental issues, but its essential meaning remains the same in regard to corporate value. Contributing toward the sustainable existence of humanity involves not only avoiding business risks, but also taking advantage of opportunities, and building a management strategy that enables the right decisions to be made is connected to enhancing corporate value (i.e., sustainability) over the medium to long term.

One thing to which particular attention is paid when measuring medium- to long-term corporate value is intangible assets. In the past, the term intangible assets tended to be used in a restricted sense to mean only the value of brands, software, etc., but recently it has come to be used in a wider sense to refer to anything besides tangible assets that can generate corporate value. In other words, it can be used to mean a company's fundamental strengths in terms of its managerial capabilities, human capital, corporate culture, etc.

Financial data alone are not enough to evaluate a company's intangible assets. By making effective use of non-financial data, collaborating with external organizations that possess relevant knowhow, and undertaking engagement based on this, Daiwa AM is able to get a clearer picture of a firm's intangible assets, and then encourage firms to grow these assets and utilize them effectively, thereby both providing outstanding asset management performance and contributing toward enhanced corporate value, and, ultimately, playing a role in reinvigorating the Japanese economy.

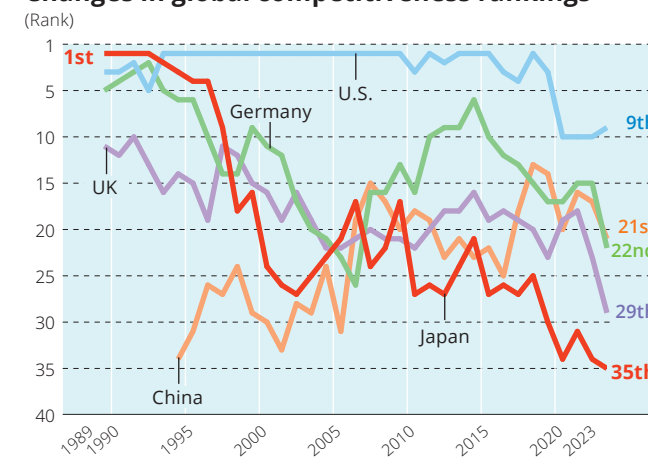


The Research Department's role in stewardship activities

Daiwa AM's Research Department is a team of economists and strategists who undertake analysis of the global economy and market environment. The team members disseminate their insights not only to company personnel responsible for fund management, but also to sales companies and customers. As part of the Fund Management Division, the Research Department also provides support for stewardship activities from a market perspective. Given that the global business foundations of both individual Japanese companies and the Japanese economy as a whole have for many years now been seen as declining, it is hoped that an increase in both the quality and quantity of stewardship activities can serve as a catalyst for the reinvigoration of Japan.

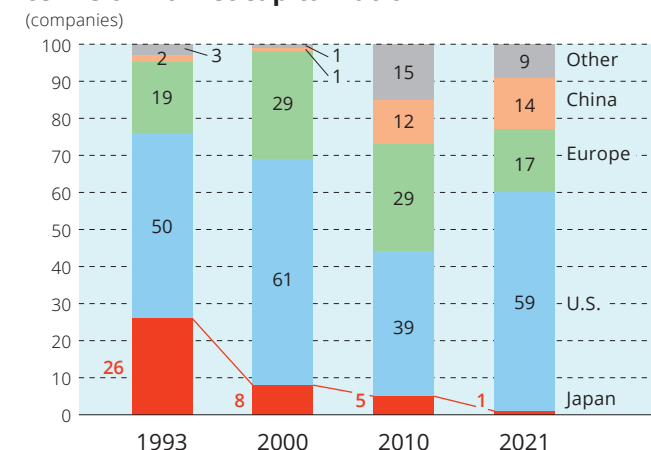


Changes in global competitiveness rankings



Source: Compiled using data from the IMD World Competitiveness Yearbook, and referencing data from METI

Composition of the world's Top 100 companies in terms of market capitalization



Source: Based on reference data compiled by METI, published on November 19, 2021 (Reference 5)